

POST-CABINET PRESS CONFERENCE: MONDAY, 18 MAY 2015

PM: OK. Good afternoon. It is, of course, Budget week, and Budget 2015 will be about sticking to a plan that's working for New Zealand. New Zealand's economy is one of the best-performing in the world. Tens of thousands of new jobs are being created each year, and incomes are rising faster than inflation. And the Government's books are improving so we can get back to surplus and start repaying debt.

Over the past couple of weeks Ministers have made a number of important pre-Budget announcements. Yesterday I confirmed the Budget will include measures to help ensure non-residents and New Zealanders buying property for gain pay their fair share of tax. The Government's No. 1 priority in this area will remain increasing housing supply, particularly in Auckland. Freeing up more land and building more houses is the most important thing we can do for housing affordability. Yesterday's announcement doesn't change that. The tax changes from 1 October are about further strengthening the rules on house sales and giving IRD more resources to enforce those rules. As I've said, people calling for a new capital gains tax often overlook the fact that, under existing rules, anyone buying a property with the intention of selling for a gain is already liable for tax on any gain. Let me be clear: we're not introducing a new tax, but what we are doing is ensuring the existing rules are enforced. And it's important to understand these extra requirements won't affect New Zealanders' main homes. They're aimed squarely at ensuring property buyers, including overseas speculators who buy and sell residential property, pay their fair share of tax as required under the existing law.

The Government's other pre-Budget announcements in recent weeks have included \$3 million to help complete Northland's Twin Coast Cycle Trail, \$22.5 million to plant around 15,000 hectares of new forest in the Afforestation Grants Scheme, \$32 million to strengthen compliance with minimum employment standards and help stamp out unlawful practices, \$33 million for more immigration officers and \$6.6 million to strengthen border security, \$6.5 million to reduce prisoner offending, and \$98 million to ensure more New Zealanders benefit from timely elective surgery and improved orthopaedic treatments.

And finally, as a result of ACC's sound financial performance under this Government, we've signalled around \$500 million worth of savings for New Zealanders through ACC levy cuts. Under this Government's careful management, the scheme is now essentially fully funded, which means it has enough money to invest to meet the future costs of all current claims. The latest round of cuts ultimately means more money in the pockets of Kiwis. Budget day is now only three days away, so you don't have long to wait to see how this all fits in with the Government's broader plan through Budget 2015.

Regarding the House this week, we intend to progress a number of second readings, including the Environmental Reporting Bill, the Waitangi National Trust Board Amendment Bill, and the Organised Crime and Anti-corruption Legislation Bill. As for my activities, I'm in Wellington tomorrow. I'm going to Rotorua for Trenz on Wednesday morning, but, of course, I'll be here for question time. Thursday is Budget day: without saying the obvious, I'll be here. And Friday I'll be speaking, as I normally do after Budget, at the Trans-Tasman Business Circle. Finally, over the weekend, I'll be in New Plymouth for the National Party's Central North Island conference—the last of our regional conferences.

Media: Prime Minister, you said after the election that dealing with poverty, hardship, alleviating extreme poverty for 60,000 to 100,000 children, Kiwis would be your focus in this Budget. Are you backing away from that now?

PM: No, I am focused on that issue, as we have been, actually, in the whole time that we've been in Government, and that's really about a wide range of things we've done: providing a stronger economy to ensure that families can get into work, because we know if they're in a welfare-based home there's at least a greater probability that they'll be growing

up in poverty; things like free under-13 doctors' visits, for instance; there's a whole range of initiatives. I think I've made clear on numerous occasions prior to today there'll be some support for those who are suffering from material deprivation in the Budget, but you'd appreciate that there's a limit to the amount of resources that we've got in very tight financial conditions.

Media: But is it a targeted package that, you know, is that essential point of this Budget? Because that was the impression you gave after the election.

PM: Well, you will have to judge that when you see our Budget fully read out on Thursday.

Media: Has the Government done any modelling on these tax changes and what impact it'll have on house price inflation?

PM: Look, we haven't budgeted for any additional revenue as a result of the changes that we made yesterday, because we're taking an ultra-conservative view. Do I think we'll get more revenue? The answer's yes. It's pretty clear that as a result of the \$33 million we gave for more inspectors for IRD in Budget 2010—of which that money runs out, basically, this year—we've collected about quarter of a billion. The brightline test makes it much clearer and much easier for IRD. They've got the \$33 million we put into Budget 2013 and the \$29 million we announced yesterday for Budget 2015, so that's estimated to bring in \$420 million. I suspect when you add into that what we're doing in terms of non-residents you will see a greater number, but we just haven't budgeted what that might be.

Media: The 2-year period—did you consider longer periods? Because when you—triggering for this in 2010, they said 5 years, minimum, would be the—to make the brightline option work.

PM: Yeah. So Cabinet's preference, I think, to be frank, was 3 years. IRD's preference was 2 years, and so, in the end, we accepted IRD's advice, I think, that we should stick with 2 years.

Media: So why the balance?

PM: What they basically say is the further out you go, the more exceptions that you have to have, and we thought it was, you know, pretty clean and clear-cut at sort of 2 years.

Media: Isn't it 2 years, 1 day, don't pay?

PM: No, no. This is what you've got to be really careful of is that there's an intention test, and that intention test means that you pay tax if you're on what's called "revenue account" any time yourself—it doesn't matter whether it's 2 years and 1 day, 22 years and 1 day, you still pay tax. But in between the zero to 2-year-and-1-day period there's no ambiguity. If you're in that period, you pay, as long as you're buying an investment property.

Media: But beyond the 2 years you go back into that area of ambiguity, then, don't you?

PM: Yeah, but you go back into the debate that happens between you and the IRD, and you can see that, as a result of the extra assessors, a quarter of a billion dollars was paid. Now, that will have been paid through two ways: one would have been an outright discussion between the taxpayer and the tax inspector, so they will have finally agreed: "Yes, your behaviour indicates you're actually on revenue account, even though you're claiming you're not."; and the second way is going off to court. But by either way, they've ultimately agreed, somehow, that they owe tax. So, look, in the end, what this does is it makes it a hell of a lot easier in terms of getting into the minds of a taxpayer, because the taxpayer can always claim: "Well, I bought it with the intention of renting it but, lo and behold, someone came and bought it off me after six months' time, so I sold it." And if there's a pattern of behaviour, it's easier for IRD.

The other thing is with non-residents, sometimes it's been quite easy for IRD to identify that there's a problem and that tax should be paid, but it's been far more difficult to actually track

that person down—very much like it was with non-resident offshore loans or, sorry, student loan borrowers.

Media: Given you're going to have what you call "perfect information" about those non-residents, why not, then, go towards setting up a foreign buyers' register?

PM: Well, we will be able to get information. I mean, as it currently sits in there, theoretically that information is IRD's, but I don't think that's going to wash with the media too much. So we're going to want to be able to present you information, so we're working our way through that. The only thing I'd caution you is that what you'll get is perfect information about non-resident buyers of property, and so a non-resident, of course, can easily include a New Zealander, who is a New Zealander of ethnicity but their tax status means they're non-resident.

Media: But will you work towards doing something like a register, then?

PM: Well, my preference would be towards releasing that information to you so you can see it. I just caution to you that I don't know how easy it will be. In fact, I don't think it will be terribly easy, but we'll wait and see whether we can break down how many people sitting in that non-resident category are actually New Zealanders. So to give you an example, when we lived in London, we bought the land for our property that we built in St Stephens Ave. At that point the only property, from memory, we owned in New Zealand was our beach place at Omaha. So we would have been non-residents and counted in that category, but actually, of course, we were returning New Zealanders at some point.

Media: How much of a problem does IRD say is the issue of non-residents not declaring at the moment? They tend to say it's quite a big problem.

PM: The advice from IRD has been the problem has been increasing, so they're seeing increasing activity. It's very difficult for them, because they don't have good information at all, because they don't turn up in our system. Sometimes they either bring in their own cash or they borrow from offshore lenders; they come in and out of New Zealand. Sometimes they're pretty convinced that they are actually liable for tax, but they haven't been able to track them down easily. So I think you're going to see a couple of things, because where we want to go and where the Government's very clear intentions are going is a withholding tax. So what will actually happen is if you buy and sell a property and you're non-resident, we will actually take the tax off you. We will withhold it, and it will be then incumbent on the taxpayer to get the money back from us. So the burden of proof, if you like, will switch around from us trying to chase them to them chasing us to try and get the money back.

Media: If an Opposition party was to come along, say their policy was to make a brightline out to 10, 15, 20 years, would you then criticise that as a capital gains tax?

PM: I probably would. But you know, in the end, if you go for an infinite period of time then you're basically saying that you are going to tax, you know, the capital of every transaction.

Media: But 2 years is not a capital gains tax—but at 10 years it is?

PM: No. Well, look, 2 years is not, because it's—in my view, it's about reducing the ambiguity in a period of time which is reasonably short but for which—I think most New Zealanders would say if you're buying and selling an investment property within two years I think the fair presumption is actually you're trading it, and that's fair enough. Beyond that, you know, people are quite entitled to buy properties under our Government and actually, you know, argue the case quite strongly that they buy them for the purposes of renting them or they're their bach or whatever it might be. But actually, in the nought to 2-year period I don't think that presumption is unreasonable. But if you're going to say it's essentially a brightline test for 20 years—20 years is a hell of a long time in the life cycle of people owning a property.

Media: But that's a good point though—is a 5-year brightlines test—is that a capital gains tax?

PM: Well, you could get into any argument that you want. What I've been saying, if you go back and look in the entire time that I've been both the leader and the finance spokesman—and I argued the case with you guys when we had the election last year—New Zealand has a capital gains tax. You know? You can make it in whatever form you like, it's not—it's basically taxed at the marginal tax rate of the person, but there's no getting away from the count. If I go to—getting away from the situation—if I go to IRD tomorrow and say I'm buying this property on revenue account, in other words I'm buying it with the intention of selling it for a gain, I pay a capital gains tax. All we're doing is saying the ambiguity period within nought to 2 years is gone.

Media: A lot of people today saying we will see a rush on buying and selling in the lead-up to October the 1st. Is that just going to create more of a problem in the short term?

PM: Well, everything in life is a trade-off, so the counterfactual to that would be us announcing that it was effective as of today. And the problem with that would be you'd also then have buyers who say: "Look, I'm in this sort of odd and unusual situation and you've given me no chance to either factor that into my buying.", or, secondly, I wouldn't necessarily be able to give them an absolute and definitive answer on some of those very complex areas. You know, how it's structured and what they're doing with it. So I think, you know, it is better to get the best tax experts in the country to put their submissions. In my experience of being on FEC those people know what they're talking about. They often come up with very good suggestions, which IRD factor into the two tax bills that we have each year. So there's a trade-off.

The second thing is, don't forget that, just because you buy a property tomorrow, if—and it's therefore not, theoretically, caught by the brightline test today—it doesn't stop the \$62 million we're spending on these extra assessors going to look at your transactions. Nothing we did yesterday takes away from the fact that, if you owe tax because you are buying with the intention of selling, you have to pay. All we did yesterday was say: "There ain't any discussion if it's nought to 2 years—outside the family home—and if you're a non-resident buyer in New Zealand, be warned the conditions have changed dramatically and you'll need to factor those in when you buy a property."

Media: But the work that was done back in 2010—do you regret not pursuing that now? It would be a very different landscape now if we'd—

PM: Well, I was always keen on a brightline test because my view was that you could drive a bus in through the intention test, and I think you can make the case but IRD were never that keen on it. But, I mean, fundamentally we kicked around a whole series of ideas with them; these were the ones that we in the end adopted, but, actually, IRD's position did change. I personally thought back then it was a much clearer way of doing things, by taking away the ambiguity—they didn't.

Media: Why did you decide now? I mean, how long ago did you make this decision to go with it?

PM: Cabinet finally signed it off I think about a week ago. But we started getting advice on it, I don't know, 4 or 5 weeks ago.

Media: Were these changes rushed, then? Looks like you've only been working on them for 4 or 5 weeks.

PM: Well, they're not rushed in so much—we have a consultation period; we've got all that period of time we just talked about where there'll be a select committee; most of this stuff is reasonably straightforward. It's just when you get into the margins of tax policy—because people can buy through different structures it can get complicated, and that's the stuff that we just want to make sure we button down. We owe that to the taxpayers who might ultimately pay the tax.

Media: So why have you adopted these initiatives so late in the budget process? Were you getting advice that the problem was—in terms of the housing—was more serious than you had accepted earlier?

PM: Look, I think—we don't live a vacuum, so, you know, we, like everybody else, have seen Auckland house prices going up a little more rapidly than we have liked. I think publicly on numerous occasions I've said to you that I think that they are rising faster than is healthy, and I think there has been a bit of a view from some people it's been a one-way bet. I think there've been plenty of people who've been, either deliberately or otherwise, very ignorant of the tax laws in New Zealand, and that's—testimony to that fact is that we've collected a quarter of a billion dollars from taxpayers who didn't think they owed us the tax. So that just shows you that. So we constantly kick around ideas and then, at some point, go and ask for advice on it. We've been kicking around, you know, thoughts in this area for quite a long period of time, as we did back in 2010. In the end we decided, yep, as part of Budget 2015 there would be some initiatives, and we went away and got some work on it. There was this, there's the extra land supply—you know, that's what we did.

Media: So what changed 4 or 5 weeks ago which meant that you decided to push ahead with this?

PM: Oh, look, as I say, it's not like we live in a vacuum where we don't have discussions on these issues all—you know, constantly. We do, on all sorts of issues, all of the time. I think we got to a point where we had to close off Budget 2015, so we had to make the call whether we were going to do something or not. I think you have seen, you know, sustained price increases which have been a bit quicker than we would like in recent times. And the second point was we started having discussions with the Reserve Bank, particularly around their speech that they gave about, you know, what would be some alternatives. They came up with the LVRs for investors. We thought this might add and complement that.

Media: So you listened to—they made that recommendation on tax and you actually responded to that specific request?

PM: Well, the Minister of Finance and the governor have ongoing discussions about these issues, and it's pretty clear that the governor is keen to explore using tools outside of just interest rates, because that's a very blunt instrument for him. So, yeah, I mean these are the sorts of discussions we have and, along the way, this was the next logical step we thought we took.

But, you know, I just go back to what I've said before. I know people don't like it when I say it, but it's true. House prices have gone up faster under Labour than under us. They doubled over the previous Labour Government. It's not new territory, and it's not unique to Auckland. It's actually true around the world in major cities, and I don't think what we announced yesterday is going to be the single silver bullet that will do something. I think by far the best solution is increasing supply. But it doesn't mean there aren't a range of different things you can't do. We took duties off imported products. We've been releasing our own series of land, where we can. We've got special housing areas. There's a bunch of things we've been doing. This is just one initiative.

Media: What other ideas have you kicked around?

PM: Well, I don't really want to detail those today, because if I do, you know, you'll set the hares running, and we don't need to.

Media: House price inflation is currently running at 14.6 percent per annum. How sustainable is that?

PM: Well, I think that's too high. And I think most New Zealanders would accept, and certainly Aucklanders would accept, even if they own a house that's going up by that amount—remembering it's an average, so sometimes it will be above or below—that actually it's not sustainable to grow at 14.5 percent. And, secondly, the most important point

here is that, if you eventually get that on an ongoing basis for a long period of time, you run the risk of a bubble being created and bursting, and that can undermine the financial sector. And that's—if that happens, then if the financial system is undermined, then you have real problems in terms of the overall economy, jobs, and also, actually, the value of equity that New Zealanders have in their homes. So it's actually incumbent upon us to continue working in these areas, and we are and we will. And that's just one step.

Media: Prime Minister, collecting the data of the foreigners who buy homes here would make it a lot easier to impose a tax just on foreigners who buy homes. Are you continuing to rule that out?

PM: Yeah, I think you—the only point I would make for you in that area is that under our FTAs, I'm not saying you can't, in theory—you know, you can try your luck at anything, but in theory, at least, on our FTAs we sign in the same conditions, or a statement that the same conditions will apply, for investment for foreigners as it would for New Zealanders. Now currently, as I read our FTAs, that's included for Australians, believe it or not for Mexicans, and for Japanese nationals. They're the ones that have those provisions. So in theory, if we did something which was unique to every non-resident or every foreigner but not—didn't apply to New Zealanders, we'd be in breach of those FTAs. It's also true that, potentially, others might want to renegotiate FTAs. So it's not as straightforward as putting something on foreigners.

Now, some countries try and do it. I don't know how they get away with it. I don't know how their FTAs are structured. They might be different to ours.

Media: So Australia, Singapore, Canada, who've taken measures in the last year or two—they're ignoring their own FTAs as well?

PM: Yeah, OK, so I had a pretty good look at what Singapore's been doing. They actually do apply it to domestics as well. I think there are slightly different tweaks. There's a stamp duty issue, but, you know, they have slightly different ways of applying that. But broadly, yes, it's applied to locals as it is to foreigners. Yeah. Other countries I can't speak explicitly. I don't know how the Australians have got around the fact that they only save—you know, foreigners can't buy existing properties. I don't know how that works, but—

Media: Are you going to use the information you collect from non-residents to share with other tax authorities and other Governments—for example, China?

PM: Well, I think what we said yesterday is part of what we're going to be doing when someone registers for a New Zealand IRD number is share that information with other countries, and also, when they apply for a bank account in New Zealand, that will give us quite a lot of information. So I think, in terms of—the bank account bit is less about our tax and more about fulfilling our obligations under the anti-money laundering [*Inaudible*].

Media: Just looking at that, Prime Minister—on the IRD number for non-residents—in doing that, they would obviously give a country that they're in at that point. So you'll have that data, won't you?

PM: Yeah, but the trouble is, though, it only gives the country that they are resident for tax purposes; it doesn't mean that's where they are. For tax purposes they are a resident, but it doesn't mean, for instance, they're not a New Zealander. So if I'm living in Australia as a Kiwi, I'm non-resident and I supply that data to the Australian IRD, you're no wiser about whether I'm actually a Kiwi or an Australian. I'm just—for tax purposes.

Media: But you will see so many from Australia, so many from the United Kingdom, so many from China?

PM: Yes, but I think you just need—I just caution you that—that for instance, I mean, I guess it will vary. Pretty obvious there's not as many New Zealand nationals living in China, for instance, as there is in the UK, but you're going to need to factor all of that in, because it will give you tax status information.

Media: But it's going to be really good information, though, isn't it?

PM: Well, yeah, it will be perfect information in so much that it applies to their tax residency.

Media: So why isn't it a register? Why won't you just call it a register? Because that's what it is.

PM: Well, I'm just saying to you that—the point being that—the whole argument about a register is: for what purpose? I mean, when people say they want a register, why do they want a register? I mean, to me it's much more interesting to say—you know, we might gather some information as a by-product of doing something. I'd much rather make sure that those non-residents, wherever their nationality is, that they actually pay their fair share of tax. So the by-product might produce that information.

Media: I mean, I'm agreeing with you. This is as good as a register, if not better—

PM: Well, it'll be better, because in the end, as I said to you, if I turned around tomorrow and said: "Here's a register, and by the way, you know, 300 properties out of x, y, z were sold to Chinese nationals.", what does that mean? It doesn't mean anything, really, does it? I mean, in the end it's about what you do with that information. For us, that information allows us to collect tax that we otherwise wouldn't.

Media: On Iraq, what implications does the fall of Ramadi have on our deployment to Taji?

PM: Well, I think it continues to show the difficulty that Iraq is facing, the challenges that country has, and probably why it's important that New Zealand's doing what it's doing in terms of training Iraqi forces, because, in the end, if Iraq is going to get control of its cities—Mosul being the largest and most obvious, and now Ramadi—it's going to need its forces to stand up and take that battle to ISIL.

Media: Ramadi is only 100 kilometres away, roughly, from Taji. At what point does the instability or the security threat get so great that our troops have to be withdrawn?

PM: Like everything in life, one always assesses the risks that are there, but we are confident that the facility that our troops are in is a secure one—as secure as it can be in what is a volatile and difficult country or situation. So, look, I can't tell you that there's a particular trigger point, but what I can tell you is I'm confident that our guys are in the safest place they can be within Iraq.

Media: If IS militants approached Baghdad even closer, would the Government review that deployment?

PM: That's not the trigger point, I don't think. I mean, the trigger point would—you know, there are other potential trigger points, but that's not really one of them. I mean, in the end, we have—the security of our soldiers is paramount. That's why there are so many protection people. That's why we were so cautious about where they went. That's why we researched what we did for such a long period of time. So I can't tell you—you know, there isn't a particular thing that says: "On this day we will review it, and this day we won't." It's something we constantly assess. We won't take ridiculous risks but just because Ramadi's been taken by ISIL doesn't mean our guys should come home.

Media: The United Nations has found that Māori are overrepresented in New Zealand prisons. Why do you think that's the case, and what's the Government doing about it?

PM: Well, I don't think that's new, is it? I mean, in reality, you know, prison populations have been heavily populated by Māori and Pacific for a long period of time. Look, all I can say—I can't give you a reason for that.

PM: You know, people come up with all sorts of hypothesis why—hypotheses—I think to me, you know, I think the real issue is what are we doing to basically try and rehabilitate those who have been in prison to ensure they don't come back, and that's why, if you take

the good example of Wiri, it is really world's best practice, you know? There's drug and alcohol prevention programmes running there for all prisoners that want it. There is strong incentives on making sure those prisoners have skills when they come out; we're trying to marry up those skills with future employers. And it's close to the population base of its inmates, so they're close to their families. So I think, you know, in the end, that's got to be our major focus—is how do we stop people going to prison, and how do we make sure that all of those incentives are for them to not go back if they've been there.

Media: Do you need more targeted programmes, though, for Māori?

PM: Well, we do that already. I mean, there's been all sorts of programmes that we've run in the time we've been there. I mean, you know, Te Ururoa these days, I think, still has some responsibility for that. Certainly Pita led that area.

Media: Just quickly on housing—the annual increase, as we said before, is 15.6 percent. The Reserve Bank changes announced last week said it would take 2 to 4 percent off house price inflation. Do you have any evidence that the tax changes you announced yesterday will actually have an impact on prices?

PM: Well, he hadn't modelled that number. At least, I don't see any modelling for that.

Media: But do you think it will? I mean, there's \$200 billion worth of loans, and this will get \$84 million a year.

PM: There's a whole lot of numbers that are thrown around, so I'm a bit cautious about quoting them, because someone will tell me that's not the right number, but the bottom line is a decent chunk of houses that are bought are bought by people in the investor category, and the rules for them changed yesterday. I'd say a reasonable number—I don't know how large, but a number—are bought by non-residents, and the rules for them changed yesterday. And thirdly, I think there are people who, either out of ignorance or deliberately, were cheating the system, and they'll certainly now be on notice that the system's changed. So will it have some impact? My guess is yes. How much? I don't know.

Media: Have you looked at, as well as the 2-year period, investments beyond the 2-year period, you know, for longer than that? Have you looked at tightening up the rules around that?

PM: This was—the things we announced yesterday that—as I said to you, we literally kicked around lots of ideas, and these were the ones that IRD came back to us with and said: "These are the ones we are most comfortable with, that we think are the most effective to be introduced in a reasonable time frame."

Media: Do you think you'll ever get to the stage of making non-residents build new homes?

PM: The—I'm not sure how that would fit within our FTA rules, so I just don't know how possible that is. I mean—but maybe there are ways around it, but certainly the advice I've had at the moment is we can't treat Australians, Mexicans, and Japanese in a different way from the way we treat a New Zealand national. Now, some countries might just go: "To hell with that.", but that's what sits within our FTAs, as I understand it.

Media: Will collecting this information make it easier for New Zealand to cooperate with China in its efforts to track down economic fugitives and—

PM: Arguably, yes, because, as I said to you, the New Zealand bank account issue is all about fulfilling our obligations under anti-money laundering.

Media: Do you think that anti—that money laundering has been an issue, particularly in the Auckland market?

PM: I don't know. I mean, yeah, you'd have to say there's been a few isolated cases in Australia, at least, that have been reported. So it'd be a bit naïve to think there aren't any in New Zealand, but I don't have the evidence to support that.

Media: So if a young couple bought a house as a do-up and put in a new bathroom and kitchen, spent \$50,000 on it and sold it three years later, would they be liable?

PM: If it's their main family home, no.

Media: Even for the intention though? If that was their intention all along—

PM: Well, if they say that their intention is to buy a property to sell it—for making a gain—I think you're caught under the current intent rules. You're on revenue account. But people don't claim that, do they? I mean, people buy, you know, in good faith. Most people buy a house—unless it's brand new—and make some alterations to it and improvements to it largely because they want to live with those improvements. Yeah, it might help their capital gain in the end, but their intention is to have that home as their family home. But under the tax rules, as I understand them, if your intention is to buy the property with the intention of reselling it for a gain, then you're subject to a gains tax.

Media: So you say the intention rule will remain—

PM: Yep.

Media: —the whole time anyway.

PM: Yep.

Media: So this is their intention—they just have to be careful not to put it in writing somewhere?

PM: Well, yeah. I mean, there's nothing new here, is there? I mean, this is what's always been there. So nothing we've changed yesterday—you're saying, hypothetically, if someone goes along and says: "I buy this property with the intention of reselling it to making a gain."—I think, to be blunt, that catches them under the current rules. But, you know, if they're a young couple buying a house that happens to do up the kitchen, paint it—and, you know, maybe they do hope one day they're going to make money, but I suspect under the IRD rules their intention is that to be their family home—then I think that's what excludes them. But you'd have to ask the tax experts.

Media: But does it not protect them if they actually lived in the home while they were doing it up?

PM: Yeah, well, I mean, I think most people would—look, all across New Zealand people do up a house. And, yeah, of course, most people do up a house hoping that they're going to make money out of it and it's a nicer place to live. But their intention is for that to be their family home, and that's, I would have thought, the overriding thing. The people that get caught on revenue account are people that deliberately buy a property and the sole purpose of buying it is to make money, and that's fair enough. And you've seen in the papers today people saying "It won't affect me; I already pay tax." Well, that's right. It's just that there's a hell of a lot of people, I reckon, for whatever reason, don't realise that the current laws are there, and they get pinged.

Media: So in a situation where you've got somebody who buys a property, sells it within 2 years, and makes a loss—given it's been, you know, a gain would be treated as income—well, I mean, I'm sorry, I don't know the exact terminology, but essentially it does—would that then be treated as a loss that they can then claim back against income?

PM: Yeah, so all that's part of the consultation period, but if they're on revenue account—in other words, they declare themselves on day 1: "The intention of me buying this house is to sell it to make a gain.", remembering the 2 years is then irrelevant because it doesn't matter when they sell it, they'll be liable for any gains they make—they are currently eligible for losses. Right? If they don't say they're on revenue account, and they

sell it within 2 years, I suspect, my own personal view is they shouldn't be eligible for losses, because they're not on revenue account. We're just taking that ambiguity away.

Media: So what would be stopping somebody, then, who is on the revenue account—I mean, admittedly, this is the current situation anyway, but it's going to be enforced a lot more, by the sounds of things—it seems as though there might be a way to then game the system, like we used to with loss-treating qualifying companies.

PM: Yeah, but you've got to remember, though, to do that you have to declare up front "I'm on revenue account", which means you're caught forever, and, secondly, that's the current law. So there's all sorts of complicated things you go through in terms of improvements and stuff you take off and all the rest of it, but fundamentally at the moment there are plenty of people who do that. They go and buy houses, they say "I'm in the purpose of trading them.", they're on revenue account, and sometimes they make losses—and they can claim those losses. But they're declaring up front they're on revenue account. The people you're talking about are people who are buying, I suspect will say "I'm not on revenue account; it's my intention to actually hold the property to rent it.", and the question is should they get losses if they sell within a 2-year period? I'd say no, personally, but that'll be a matter of the consultation committee.

Media: How many people do you think, around about, own or have an interest in a property in Auckland?

PM: How many people own a property?

Media: Yeah, how many—

PM: I don't know. I thought it was 530,000 people owned a family home in Auckland, but I might be wrong. I just don't have those numbers.

Media: Are you concerned that this measure could actually discourage people from buying off the plan and reducing the demand, if you like, for new housing and therefore restrict supply?

PM: I don't think so. I mean, the argument at the moment seems to be, if you accept simple supply and demand, that there's too much demand for the supply. So I don't think so. I mean, a lot of people buy off plans because they actually want to own the property they're living in, it's the place they're actually going to live, or they're going to rent it long term. And, actually, it takes a period of time, so it eats into that 2 years, so I don't think so.

Media: But speculators can create liquidity in this market, and if you don't have those people who are hoping to buy and flick, then that reduces some of the demand, at least initially, for those apartments.

PM: Yeah, I mean, like everything, there's trade-offs. So you are going to take some people out of the market, but then, equally, you're probably going to have less upward pressure, which is our long-term desired goal. I don't think the announcements we made yesterday are so significant that they're going to deflate the Auckland housing market. I think they're just another thing that might help slow it down a bit. But I wouldn't want to overstate them.

Media: Don't you think it'll have quite a chilling effect on non-resident buyers, especially the withholding tax?

PM: Well, with the greatest respect to the ones that were gaming the system, yes, I think it will stop them, because they will realise they have to hold it for 2 years, and they'll realise they have to exchange a lot more information than some of them might be comfortable with. How many people really sit in that category? I don't know. So it'll have an effect on them. But there'll be lots of people who'll still say: "Look, I want to buy a place in New Zealand. I want to own it. You know, my kids might go to university there and I'm going to have it for 10 years." It won't stop them.

Media: Have you viewed any reports on or analysis on how many might be in that category?

PM: Look, in the Cabinet paper—in terms of the non-residents, I don't think that number's actually identified, but IRD's advice, I remember, was—said that they'd see increasing activity. But they—within the Cabinet paper they detail how many people they think would be caught in terms of the percentage of volume on the 3 years versus 2 years and blah, blah, blah. All that stuff's in there.

Media: Could I just ask you for your definition of “material deprivation”?

PM: Material deprivation. Well, it's—the way that we were looking at it, the way we measure the 60-100,000 kids, are on the number of characteristics that you can attribute to them as defined, I think, by the UN index—I think it's the UN index. So from memory the nine to—Sorry. The 60-100,000 have at least nine and sometimes more than 11 attributes of the material deprivation index, whereas the 240,000 kids it probably is now, I think, have somewhere between 5 and 7.

Media: What is the most pressing matter or aspect of that material deprivation?

PM: Sorry?

Media: What is the most pressing or most urgent need to address in that material deprivation?

PM: Well, I think it's—rather than an individual thing, because there's lots and lots of different components, I mean, they just say, you know, “Can you do this?” and “Can you do that?”; “Does the child suffer this?” and “Does the child suffer that?”. I mean, to me, it's the collective package of them, isn't it? I mean, I guess what we're just trying to say is we acknowledge that there are children right across the spectrum of New Zealand. Some are—come from very wealthy backgrounds, and some come from extremely poor ones. I think New Zealanders would say the primary focus of attention should be on the most materially deprived.

Media: One criticism is that the sort of current support for families, particularly children through tax credits and stuff, is that more money goes to those with older children, and it should be—

PM: Yep.

Media: Are you looking at that, to put it towards younger children?

PM: I think it's fair to say—yeah, we agree that advice does get provided. There's a range of different views, and you see people say—look, because the biggest difference you can make to a child is often in the most formative years, there is quite a body of thought that says you should do more for children when they're younger and less, actually, when they're older, and the system, as you say, is structured the other way, which is that you get more money when the child is, say, 16 to 18 than when the child is, you know, 5 to 7.

We're not proposing to change that at the moment, from memory, off the top of my head, and the reason being that even though I think there's a strong argument in what people say, my experience of kids as they get a bit older is they actually consume more money. So realistically, you know, teenagers—and they're a nightmare in our house, so anyway—so I assume that's the situation everywhere, that, fundamentally, as kids get a bit older, they, you know, even if they—it doesn't matter if they come from a poor household, they still spend more on clothes, more on entertainment, more on those things that they'll want to spend, and so the pressures on those parents are greater. They're more likely to go off to a school camp; they're more likely to want to go to a club; they may be more likely to play a participation sport after school. So even though I can understand the academic argument, I think the practical argument in the household is their costs rise when they get a bit older.

Media: Have you ever communicated with Rachel Glucina about Amanda Bailey?

PM: Look, I'm not going to go into, you know, what conversations I have with journalists—text messages or whatever—and the reason for that is not unique to that or specific to that situation. It's just that lots of you send me text messages, and lots of you ring me, and I think if I got to the point where I started detailing that, it would be, well, it would be impossible for any of us to have any sort of relationship at all. I think you'd appreciate that. If you're asking me specifically about the situation where there was an issue between her and the *New Zealand Herald*, I had absolutely no part to play in that whatsoever.

Media: Because the Greens are suggesting that maybe you had something to do with what they've called a *Herald* hit-job.

PM: Yeah, no, I had nothing to do with that, absolutely, but I'm not going to detail text messages or conversations I had, because, just as a matter of practice, I'm not going to do that.

Media: Would it be fair to say that Grant Spencer's speech was a catalyst for your late announcement?

PM: There's been a lot of discussion about housing for quite a long period of time, and there's been quite a lot of informal sort of thinking about the tax settings that we have. This is sort of an—it's an ongoing thing. I think it's all part—they dovetail in together, but the fact he gave a speech didn't make us go and do these things. I don't think that's the right order, but it's fair to say we've been having discussions with him and thinking about these things. In the end, what happened was we got to the point where we said, look, we're either going to do something in the Budget for housing or we're not. If we're going to do it, then we need to get on with it, and if we're not, we're not.

Media: So what role did polling play in that decision?

PM: Yeah, I see that with Labour. They must do very different polling from us, that's all I can say. I know they go and poll on what negative—the most negative statement they can find about me, 'cause they ring plenty of people and read out the options and they all sound pretty scary when you hear them back the other way. But we don't do that. We haven't done any polling on housing—zero. I can't think of a single—we have our standard questions that we ask every single week, and we have for years, about economic development, but we didn't go out specifically and poll on this or what would happen if we had a brightline test or what would happen if we did—we don't, we just don't do that. It's not generally the way we operate.

Media: So Curia has not done any polling on—

PM: Not that I've seen. We just have our stock standard questions we poll every week. And there's a whole range of questions within that, and there are questions about housing and the economy, but they're not specific on this stuff and they're not new.

Media: From that have you picked up that there's growing public concern about housing, though?

PM: It's a slightly more elevated issue than it probably was a couple of years ago, but it's not the most elevated.

Media: Do you think these measures give the Reserve Bank freedom, now, to lower interest rates, and should they, in your view?

PM: Oh, as we know, that's dangerous territory.

Media: You're blaming the FTAs for not being able to do a range of things, and say you don't know how the Australians are getting away with it. Have you thought about consulting with the Australian Governments about that?

PM: Well, all I'm saying to you—I'm not blaming them. I'm just saying to you that the advice I've had is we've looked at lots of things, and the advice I've had is that it would be

in breach of the FTAs with those three countries if we put different conditions on their nationals than we did on New Zealanders. That doesn't mean that we couldn't do something which excluded those and had everybody else in another category. Technically we could, but then the question you would then face is when we go to renegotiate some of our FTAs, which we will, would we then apply the same provisions? So I just don't know how Australia's doing it, but look, frankly, does anyone really think, you know, it's stopping anyone buying a house in Australia that's pre-existing because they're non-resident? I'm sorry, but I just don't see a lot of evidence it works. I mean, it might do, but I'll bet you there's a million ways you can drive a bus round that one as well.

Media: If this will have quite a strong effect on foreigners buying homes here, would you concede, then, it probably will have an effect on foreign investment here? I mean, a lot of people looking to invest in New Zealand probably want to buy a home.

PM: But there's—no, I don't think it will, actually, because for a start off, I mean, it excludes everything outside of residential property. So it's not going to have any impact on commercial property, it's not going to have any impact on farms, and it's not going to have any impact on commercial assets that people buy. The second thing is that if somebody is, you know, buying a business, for instance, in New Zealand, you know, they're going to have their tax details, all of that stuff that's going to be part of, you know, an exchange of what they do. Because ultimately they're going to be known to the authorities in New Zealand. I can't see those people being at all worried about giving—having a New Zealand bank account and giving their tax details just because they want to buy a house here. OK.

conclusion of press conference